LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6905
BILL NUMBER: SB 281

DATE PREPARED: Dec 28, 2001
BILL AMENDED:

SUBJECT: Capital Investment Tax Credit.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill extends the Capital Investment Tax Credit to a project located in Kokomo. The bill also updates population parameters to reflect changes in the 2000 decennial Census.

Effective Date: January 1, 2003.

Explanation of State Expenditures: The Department of Commerce (IDOC) could experience an increase in expenditures for the certification of additional investment tax credits under the bill. The IDOC is required by current law to inform the Department of State Revenue (DOR) whether or not the company is entitled to the credit. The additional expenses and demands associated would affect the IDOC. However, it is expected that the IDOC could absorb the impact given its existing budget and resources. As of December 3, 2001, the IDOC had 18 vacant full-time positions.

Explanation of State Revenues: *Expanding the Capital Investment Tax Credit to incorporate qualified investment in Kokomo would reduce state tax revenues by a maximum amount of $1 M per fiscal year for seven years beginning in FY 2003*. This bill extends the credit for companies making certain qualified investments in Kokomo, Indiana. The bill also exempts a taxpayer making a qualified investment in Kokomo from meeting average wage requirements. Current law (P.L. 291-2001) allows a taxpayer to claim the credit only if the average wage of the taxpayer's Indiana employees exceeds the average wage of the county or proof can be provided by the taxpayer that as a result of the qualified investment, the average wage of its Indiana employees would exceed the average wage of the county. (The U.S. Census Bureau reports that the average annual pay in Indiana in 2000 was $31,015. Additionally, the per capita personal income for Howard County in 1999 was $27,623.)

Under current law, qualified investments include the purchase of new manufacturing equipment, purchase of new computers and related equipment, costs associated with the modernization of existing manufacturing facilities, on-site infrastructure improvements, construction of new manufacturing facilities, costs associated with retooling existing machinery and equipment, and costs associated with the construction of special purpose buildings and foundations for use in computer, software, biological sciences, or telecommunications industry.

Under this bill, additional criteria for qualified investment would include costs associated with a project that are expenditures for the construction of special purpose buildings and foundations for use in the manufacture of high technology products. The equipment, machinery, facilities, facilities improvements, buildings, or foundations installed or used for a project in Kokomo having an estimated total cost of at least $50 M would qualify as an expenditure under the bill.

The credit would be equal to the qualified investment made in a taxable year minus the average annual expenditures for similar investments over the preceding three years. The result of this calculation would then be multiplied by 14% to yield the actual amount of the credit. The total credit would not be taken at once, but would be divided equally over seven years, beginning in the year in which it is granted. If a taxpayer making a qualified investment chose to sell the company, the assets from credits obtained from a qualified investment are transferrable in the sale.

Under current law, the total value of the credit is divided equally over seven years. Exceeding amounts of credit in a given tax year may be carried over to not more than three subsequent tax years. The amount carried over is taken against the total amount of credit that may be awarded in subsequent years. Additionally, a taxpayer may not have a carryback nor a refund of any unused credits.

The maximum amount of credit that could be claimed from $50 M of qualified investment would be $1 M per year. ($50 M X 0.14) / 7

The effective date of the bill is January 3, 2003, which could begin impacting revenues in either FY 2003, depending on date of certification of the credit and on the timing of the estimated quarterly payments of a taxpayer in FY 2003, or in FY 2004. This credit could be taken against a taxpayer's liability under the Gross Income Tax, the Adjusted Gross Income Tax, the Supplemental Net Income Tax, the Bank Tax, the Savings and Loan Association Tax, the Insurance Premium Tax, and the Financial Institutions Tax. Revenue from these taxes is deposited in the General Fund and the Property Tax Replacement Fund. If a pass-through entity without state tax liability is entitled to a credit, a shareholder, partner, or a member of the entity may receive a credit equal to the amount determined for the entity multiplied by that person's share of distributive income.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Department of Commerce, Department of State Revenue.

Local Agencies Affected:

Information Sources: State of Indiana, *HRM Detail Staffing Report, 12/03/2001*; U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Bureau of Census.